

FREEWAY SERVICE PATROL PROGRAM OFF TO AN AMAZING START

By Tony Grasso
Executive Director
San Bernardino Associated Governments

Wow! Imagine fixing 561 flat tires in two months. Tow truck drivers assigned to San Bernardino County's new Freeway Service Patrol have done exactly that during the program's first two months of operation.

Stranded motorists on Interstate 10 and Interstate 15 in the San Bernardino Valley now have a safety net – thanks to the Freeway Service Patrol, which started January 3. The FSP has provided free help to a whopping 3,910 drivers in January and February.

Administered by San Bernardino Associated Governments, the California Highway Patrol and Caltrans, the program operates using a small fleet of two trucks that travel on 26 miles of Interstate 10 between Montclair and San Bernardino and on eight miles of Interstate 15 between Ontario and Rancho Cucamonga.

Designed for the heaviest commute times, the FSP in place Monday through Friday from 5 a.m. to 8:30 a.m. and from 3 p.m. to 7 p.m. Tow truck drivers stay on the lookout for stranded motorists and come to the rescue with offers for free service. The drivers wear uniforms and are in trucks clearly marked with the FSP logo. Drivers cannot accept payment or tips for their help.

Continued on back cover

If you want further information on the economic analysis in the QER, contact Dr. John Husing via e-mail at john@johnhusing.com. To be added to the mailing list, or have someone added, contact Deborah Barmack at (909) 884-8276. If you have received duplicate copies, please share them and let us know.

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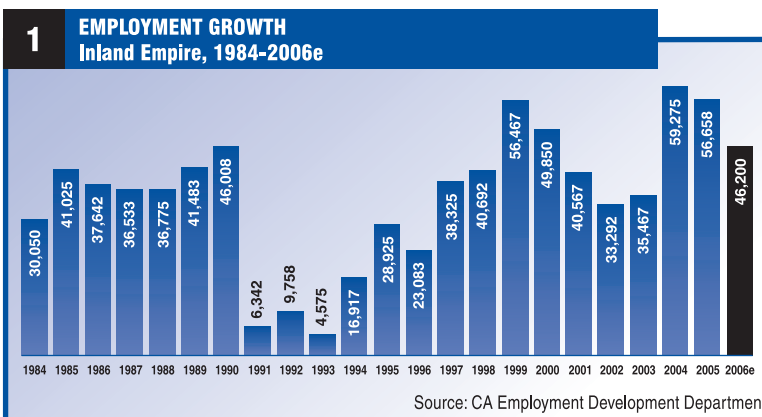
INLAND EMPIRE 2006 STRONG GROWTH BUT BELOW 2004 & 2005

John E. Husing, Ph.D.

During 2006, the Inland Empire economy will expand somewhat slower than the extraordinary growth of 2004 and 2005. The forecast is for 46,200 more jobs, down from gains of 59,275 and 56,658 in 2004 and 2005 (*Exhibit 1*). Average annual employment for 2006 is forecasted to reach 1,281,575 (*Exhibit 2*). The growth rate will be 3.7%, down from 5.3% and 4.4% in 2004 and 2005.

U.S. GROWTH: MODEST

A local forecast must start with the U.S. economy as it supplies the ocean of forces affecting its regions. From February 2005-2006, the U.S. economy added 2.05 million jobs, up a modest 1.5%. Some 5.0 million jobs have been added since employment stopped shrinking in September 2003, setting a strong context for California and Inland Empire job growth. Also important to the inland area is the national interest rate environment. Since June 2004, the Federal Reserve Bank has increased the over-night rate it controls from 1.00%



to 4.50% making variable rate mortgages more costly. However, in this period, the flow of foreign funds into the U.S. has kept the 10-year bond that drives 30-year mortgage rates flat. It has gone from 4.73% down to 4.57%, though it is up from 4.00% in June 2005 (*Exhibit 12*). A third key national variable has been the 88.9% rise of oil prices between February 2004-2006. This has helped move inflation up to 3.2% and contributed to the pressure on the Federal Reserve to continue raising rates.

Continued on page 2

In this context, the U.S. Gross Domestic Product rose 3.5% in 2005. The 2006 consensus forecast is for growth to start the year at 3.6% but slow to 3.1% by fourth quarter (*Exhibit 4*). This will occur as rising interest rates restrain the construction sector while smaller gains in housing prices reduce the ability of consumers to fund retail purchases with home equity loans. Continued high oil prices will also dampen economic growth as will the fact that U.S. will import far more goods than it will export. Countering these trends will be the federal government's continued deficit spending as it pumps billions more into the economy than it extracts in taxes.

CALIFORNIA: MODEST

California enters 2006 with its job market growing modestly. In 2005, the state added 261,300 jobs, up 1.75%. For the inland area, key state facts included the addition of 51,400 construction jobs or 19.7% of California's growth. Logistics sectors were up 22,600 jobs or 8.6% of the growth. However, manufacturing shrank again, down 20,400 jobs. Looking ahead, the CA Department of Finance forecasts growth of 189,800 jobs or 1.25% in 2006. Importantly, California's budget crisis will be much less severe in 2006, with funds again flowing to education, local government and some transportation projects. These are all areas of importance to the rapidly expanding population base in the Inland Empire.

QER 2006 FORECAST

In this environment, the QER's 2006 forecast is for 46,200 new Inland Empire jobs (3.7%), reaching 1,281,575.

The forecast was built sector by sector based upon known local trends (*Exhibit 2*) and allowing for the inland area's strengths and weaknesses plus its relationships with the California and U.S. economies.

1. Clean Work, Good Pay (\$40,000 & up)

Finally, the Inland Empire is seeing its higher paying sectors grow. This is occurring because the region's competitive advantages are changing. In part, this comes from the rapid influx of well-educated workers seeking affordable high-end homes. Thus, the Census Bureau found that residents with bachelor's or higher degrees rose 81,823 or 30.8% from 2000-2004 (*Exhibit 10*). It is also seen in the region's surging office market (*Exhibit 9*). High-end sectors added 12,546 jobs in 2005 (7.0%). In 2006, another 8,900 jobs are predicted (4.6%). This would be 19.3% of the area's 46,200 job gain.

Management and professional firms will add 3,700 jobs (7.2%) both to support the construction industry and serve the large local base of people and companies. **Local, state and federal governments** will add 4,500 jobs (*combined* 4.0%) as assessed valuation growth and the state budget are helping local governments, and Indian gaming is funding tribal governments. **Mining, utility, software and medical related firms** will add 500 jobs. **Higher education** will add 200.

2. Clean Work, Moderate Paying (\$28,000-\$36,000)

Traditional white collar sectors will provide the lowest share of new Inland Empire jobs. In 2005, they added only 5,300 jobs (1.8%). In 2006, they are expected to add 6,400 (2.1%). This would be 13.9% of the area's 46,200 new jobs.

With the number of Inland Empire companies growing, the demand for **business administrative support services** should cause a 2006 gain of 2,200 jobs (4.1%). **Health care** is still lagging the region's population growth but is expected to grow by 2,000 jobs (2.1%). **Local private and public schools and community colleges** should also be keeping up with population growth but still face funding restraints. In 2006, they will add 1,200 jobs (1.1%), up from just 300 (0.3%) in 2005. With interest rates expected to rise and home sales expected to slow, the surges in hiring by

2 EMPLOYMENT FORECAST BY SECTOR & GROUP Inland Empire, 2006e							
Sector	2004	2004-2005 Change	2005	Percent Change	2005-2006 Forecast	2006e	Percent Change
Engineer, Mgmt, Professions	47,500	4,200	51,700	8.8%	3,700	55,400	7.2%
Local Government	69,700	5,800	75,500	8.3%	3,000	78,500	4.0%
Federal & State Government	34,300	1,700	36,000	5.0%	1,500	37,500	4.2%
Other	13,064	746	13,810	5.7%	500	14,310	3.6%
Higher Education	14,800	100	14,900	0.7%	200	15,100	1.3%
Clean Work, Good Pay	179,364	12,546	191,910	7.0%	8,900	200,810	4.6%
Administrative Support	53,400	200	53,600	0.4%	2,200	55,800	4.1%
Health Care	91,500	1,800	93,300	2.0%	2,000	95,300	2.1%
Local Public/Private Education	107,100	300	107,400	0.3%	1,200	108,600	1.1%
Financial Activities	45,700	3,000	48,700	6.6%	1,000	49,700	2.1%
Clean Work, Moderate Pay	297,700	5,300	303,000	1.8%	6,400	309,400	2.1%
Construction	111,800	10,400	122,200	9.3%	8,500	130,700	7.0%
Distribution & Transportation	91,100	7,400	98,500	8.1%	7,500	106,000	7.6%
Manufacturing	113,236	(146)	113,090	-0.1%	(300)	112,790	-0.3%
Dirty Work, Moderate Pay	316,136	17,654	333,790	5.6%	15,700	349,490	4.7%
Retail Trade	153,800	11,200	165,000	7.3%	7,000	172,000	4.2%
Hotel, Amuse, Eat & Drink	116,600	5,800	122,400	5.0%	4,900	127,300	4.0%
Employment Agcy	43,600	3,000	46,600	6.9%	3,000	49,600	6.4%
Other Services	39,300	1,900	41,200	4.8%	1,000	42,200	2.4%
Social Assistance	13,500	(300)	13,200	-2.2%	(200)	13,000	-1.5%
Agriculture	18,700	(500)	18,200	-2.7%	(500)	17,700	-2.7%
Low Paying Work	385,500	21,100	406,600	5.5%	15,200	421,800	3.7%
Total, All Industries	1,178,700	56,600	1,235,400	4.8%	46,200	1,281,600	3.7%

Columns may not add due to EDD rounding
Source: CA Employment Development Department, Economics & Politics, Inc.

banks and **mortgage** companies will likely be over. Just 1,000 jobs are forecasted (2.1%).

3. Blue Collar, Moderate Paying (\$32,000-\$40,000)

The Inland Empire's fastest growing sectors have normally been those paying moderate incomes to blue collar workers in construction, logistics and manufacturing. In 2005, these sectors surged, adding 17,654 jobs (5.6%). In 2006, strong construction and logistics sectors but weak manufacturing are forecasted to allow the group to add 15,700 jobs (4.7%). This will account for 34.0% of the inland area's 46,200 job gain, the largest share.

Construction employment will add 8,500 jobs in 2006 (7.0%). This will be well down from the 10,400 job gain in 2005 (9.3%). The gain will be restrained by rising interest rates and high prices which have forced many families out of the housing market. Also, the ability of local government to process permits is nearing a limit. The non-residential sector will help, thanks to strong retail, office and industrial activity and some increase in freeway construction.

Distribution and **transportation** (*logistics*) is the Inland Empire's major integrated cluster due to its large tracts of land and location along the access routes to Southern California. These advantages are forcing the industry to move inland. In 2005, the sector added 7,400 jobs (8.1%) due to the strength of international trade through Los Angeles and Long Beach harbors. In 2006, it is forecasted that employment in wholesale trade, transportation & warehousing will add 7,500 jobs (7.6%) due to the growth of trade and the gradual expansion of the domestic U.S. and California economies.

In 2005, the state's manufacturing difficulties fully hit the Inland Empire with **manufacturing** almost dead flat (-0.1%). In 2006, this difficulty is expected to continue with the sector off 300 jobs (-0.3%). Competition from low cost Asian producers will likely make this sector's sluggishness a permanent condition.

4. Lower Paying (\$15,000-\$25,000)

Like most U.S. areas, the Inland Empire's largest sectors are those paying low average incomes including retailing, consumer services, employment agencies, hotels, amusement, agriculture and social services. In 2005, they added 21,100 jobs (5.5%). In 2006, they are expected to add 15,200 jobs (3.7%). This will account for 32.9% of the inland region's 46,200 job gain.

The Inland Empire's growing population and increasing number of upscale neighborhoods will again power its **retail trade** sector. Retailers are forecasted to add 7,000 jobs (4.2%) in 2006 as the area's population growth continues to cause new centers to open and stores to expand. However, that will be down from the 11,200 added in 2005 (7.3%) as Victoria Gardens opened last year and the Federated (*Macy's*) purchase of Robinsons-May will cause

some layoffs.

The inland region's **hotel, amusement and restaurant** sectors grew by 5,800 jobs (5.0%) in 2005 as new centers opened and resorts strengthened. In early 2006, growth is forecasted to moderate to 4,900 (4.0%), in part because the Victoria Gardens expansion is moderating. **Employment agencies** are an important barometer for the inland economy as firms use them when they are considering expanding. In 2005, the sector added 3,000 jobs (6.9%), a surge that normally comes when an expansion gains speed. In 2006, a 3,000 job gain is forecasted as construction and manufacturing slow (6.4%). Meanwhile, the small social assistance sector is expected to continue slowing due to budget restrictions at the state and federal level (-200, -1.5%). Finally, the Inland Empire's **agricultural** sector, which lost 500 jobs in 2005 (-2.7%), is expected to continue shrinking, losing another 500 in 2006 (-2.7%).

SUMMARY

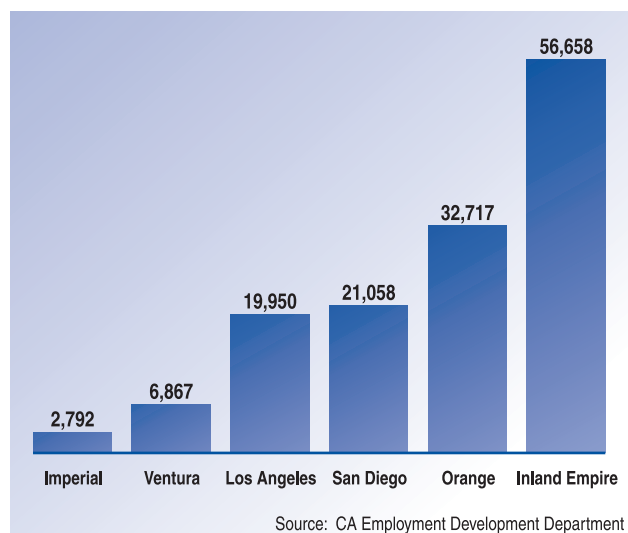
In 2006, the Inland Empire economy is forecasted to add 46,200 jobs (3.7%), down from 56,600 (4.8%) in 2005. However, the area will add more than 45,000 jobs for the third straight year. Blue collar, moderate paying sectors will add 15,700 jobs (34.0% share). Lower paying sectors will add 15,200 (32.9%). Clean work, high paying sectors will account for 8,900 (19.3%). And, clean work, moderate paying sectors will add 6,400 (13.9%). The major changes from 2005 will be somewhat slower overall growth and a higher share of new jobs in the clean work, moderate paying sectors.

FORECAST RISKS

The risks to this forecast appear be more heavily weighted on the downside. Thus, high interest rates or people losing their homes due to creative financing could cause inland real estate volume to slow more than expected affecting construction employment and such related sectors as mortgage finance, title insurance and home improvement stores. Also, high oil prices or real estate difficulties might take such a bite from consumer budgets that the U.S. economy drops into a recession. Or, the huge U.S. foreign borrowing for trade & federal deficits could cause a currency crisis, a dramatic drop in the dollar and steeply rising interest rates.

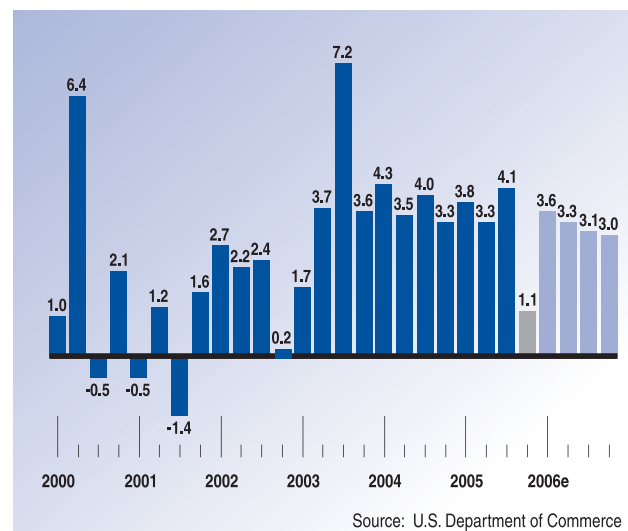
On the upside, the forecast will be conservative if inland region's lower home prices by coastal standards continue to lure large numbers of buyers despite record prices and rising interest rates. Also, despite tight labor markets, it is possible that more workers will elect to take inland jobs. Growth would also be higher if more coastal white collar firms recognized the inland area's growing base of skilled labor and migrated to the area. Or, local schools, government and freeway construction might react more strongly than expected to a return to budget normalcy. ■

3 EMPLOYMENT CHANGE, SOUTHERN CALIFORNIA MARKETS Annual Average, 2004-2005



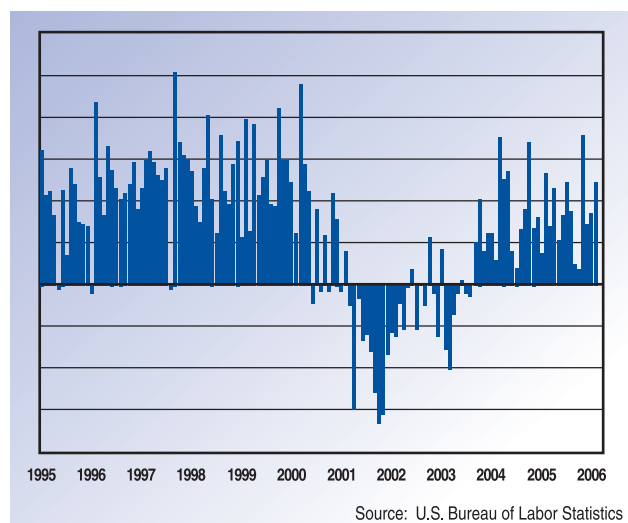
Southern California Job Growth in 2005. According to the CA Employment Development Department's revised 2005 data, the Inland Empire's average annual employment gain was 56,658 jobs (4.8%), reaching a total of 1,235,375. The area created 21.7% of the 261,275 jobs added in California during the year. The region's growth was 2,883 jobs more than Orange (32,717) and San Diego (21,058) combined. Los Angeles County added just 19,950.

4 U.S. GROSS DOMESTIC PRODUCT, 2000-2006e Percentage Change, Annualized Growth Rate (no inflation)



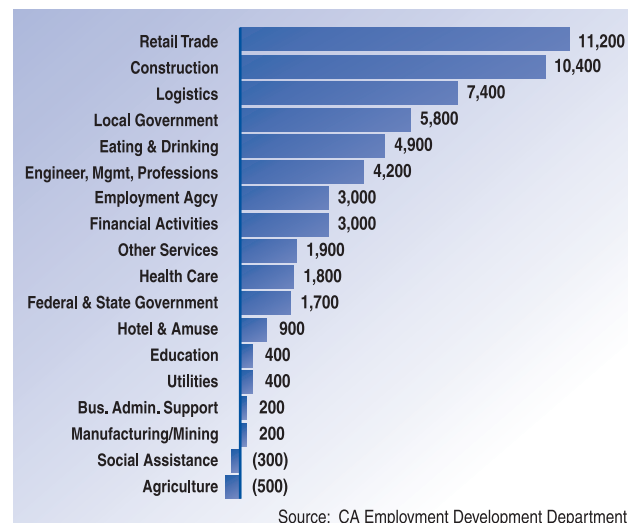
GDP Growth. The U.S. economy is in a period of solid but unspectacular growth. For all of 2005, the increase was 3.5% including a paltry 1.1% gain in the fourth quarter due to Katrina. In 2006, the consensus of Wall Street economists is for increases falling from 3.6% in first quarter to 3.0% in 4th quarter, yielding an annual average of 3.2%. In this environment, the Inland Empire's job gain will likely be down from its 56,658, 4.8% increase in 2005.

5 NEW JOB CREATION U.S., 1995-2006, Seasonally Adjusted



U.S. Employment Growth. From 2001-2003, the U.S. economy lost an annual average of 2.2 million jobs. From 2004-early 2006, it has added an annual average of 4.5 million. As a result, a net of 2.3 million people have gone to work since 2001. With jobs being added nationally, the Inland Empire will continue doing so as well. However, with the national unemployment rate at 4.8% and the local rate at 4.7%, local firms are reportedly having difficulty in finding workers.

6 JOB CHANGE BY SECTOR Inland Empire, 2005



Economic Drivers. In 2005, the Inland Empire saw 16 of 18 sectors grow and add 57,400 jobs. The strongest gains were powered by population growth: retailing (11,200), local government (5,800), eating and drinking (4,900). Land-driven blue collar growth was seen in construction (10,400), logistics (7,400) and employment agencies (3,000). The strengthening office market was aided by professional and managerial growth (4,200) and financial activity (3,000). Two shrinking sectors, agriculture and social assistance, lost 800 jobs. Net growth was 56,658 jobs (*not rounded*).

INLAND EMPIRE VS. SOUTHERN CALIFORNIA JOB PROFILE

In 2005, there were a total of 1,235,300 jobs in the Inland Empire representing 15.3% of the 7,904,800 in the combined San Bernardino, Riverside, Los Angeles, Orange and San Diego county area. That was up from 14.9% in 2004. The inland area reached this level by adding 56,658 jobs in 2005 while the coastal region added 73,500. In 1990, the inland share was only 10.4%. The Inland Empire's employment grew 4.8% in 2005 while the adjacent coastal counties collectively grew 1.1%.

CLEAN WORK, HIGH PAY

During 2005, 191,940 or 15.5% of the Inland Empire's jobs were in higher paying sectors (*tech manufacturing, software, engineering, professions, film, higher education, government*). It was 23.1% in the three coastal counties (*Exhibit 7*). While underrepresented, the inland area added 12,546 higher paying jobs in 2005 (*Exhibit 8*). That was 22.2% of its 56,700 new jobs with the biggest gain in management and professionals (4,200). The high-end group grew 7.0% versus 1.9% in the coastal counties.

CLEAN WORK, MODERATE PAY

Modest paying white collar sectors (*education, health, finance, real estate, business services*) represented 303,000 or 24.5% of the inland area's jobs. Its share was near the 26.7% average for the coastal counties. These sectors accounted for 5,300 or 9.4% of the inland region's new jobs in 2005 led by financial sectors (3,500). The moderate paying group grew by 1.8% versus 0.6% among the three coastal counties.

DIRTY WORK, MODERATE PAY

In 2005, 333,790 jobs or 27.0% of the inland area's jobs were in moderate paying blue collar sectors (*construction, dis-*

7 TOTAL INLAND EMPIRE JOBS BY SECTOR Annual Average, 2005								
Sector	Inland Empire	Los Angeles	Orange County	San Diego County	In. Empire Distribution	Coastal Distribution	In. Empire Growth	Coastal Growth
Utilities	5,400	12,700	3,500	6,400	0.4%	0.3%	8.0%	0.4%
Computer & Med Mfg.	7,110	65,900	42,500	26,400	0.6%	2.0%	3.6%	1.3%
Mining	1,300	3,700	700	400	0.1%	0.1%	8.3%	0.0%
Pictures, Broadcast, Internet	0	142,000	0	4,000	0.0%	2.1%	0.0%	2.0%
Federal & State Government	36,000	84,500	21,700	52,100	2.9%	2.3%	5.0%	-1.2%
Mgmt, Professions & Supply Chain	51,700	344,800	146,300	128,500	4.2%	9.1%	8.8%	3.7%
Higher Education	14,900	119,800	21,000	32,000	1.2%	2.5%	0.7%	1.1%
Local Government	75,500	205,600	42,300	64,800	6.1%	4.6%	8.3%	0.8%
Clean Work, Good Pay	191,910	979,000	278,000	314,600	15.5%	23.1%	7.0%	1.9%
Health Care	93,300	319,100	100,800	84,700	7.6%	7.4%	2.0%	0.0%
Admin. Support	39,200	148,700	72,100	49,100	3.2%	4.0%	-0.3%	2.5%
Financial Activities	48,700	243,700	138,200	83,200	3.9%	6.8%	6.6%	2.0%
Publish, telecomm, other	14,400	67,600	32,800	33,300	1.2%	2.0%	2.1%	-3.9%
Local Public/Private Education	107,400	271,900	90,000	87,000	8.7%	6.6%	0.3%	0.2%
Clean Work, Moderate Pay	303,000	1,051,000	433,900	337,300	24.5%	26.7%	1.8%	0.6%
Construction	122,200	148,200	99,300	91,400	9.9%	5.0%	9.3%	5.9%
Other Non-Durable	32,905	202,300	54,700	25,400	2.7%	4.1%	-0.2%	-3.6%
Durable Goods-Non Computer	80,185	202,100	85,500	52,300	6.5%	5.0%	-0.1%	-1.6%
Wholesale Trade Goods	44,100	192,000	69,700	37,700	3.6%	4.4%	8.6%	0.8%
Transportation and Warehousing	54,400	149,200	25,300	22,100	4.4%	2.9%	7.7%	0.2%
Dirty Work, Moderate Pay	333,790	893,800	334,500	228,900	27.0%	21.4%	5.6%	0.4%
Employment Agcy	46,600	104,100	61,900	38,200	3.8%	3.0%	6.9%	0.3%
Other Services	41,200	146,000	48,200	48,700	3.3%	3.6%	4.8%	1.2%
Eating & Drinking	88,900	271,200	108,700	98,000	7.2%	7.0%	5.8%	2.1%
Accommodation	17,900	38,600	21,500	29,200	1.4%	1.3%	3.5%	2.1%
Amusement	15,600	67,600	34,200	23,000	1.3%	1.8%	2.0%	-0.8%
Social Assistance	13,200	52,600	12,900	17,100	1.1%	1.2%	-2.2%	2.6%
Retail Trade	165,000	412,700	157,100	146,900	13.4%	10.5%	7.3%	1.9%
Agriculture	18,200	7,500	5,300	10,700	1.5%	0.3%	-2.7%	-7.5%
Low Paying Work	406,600	1,100,300	449,800	411,800	32.9%	28.8%	5.5%	1.4%
Total, All Industries	1,235,300	4,024,100	1,496,200	1,292,600	100.0%	100.0%	4.8%	1.1%

Note: Columns may not add due to rounding Source: CA Employment Development Department, Economics & Politics, Inc.

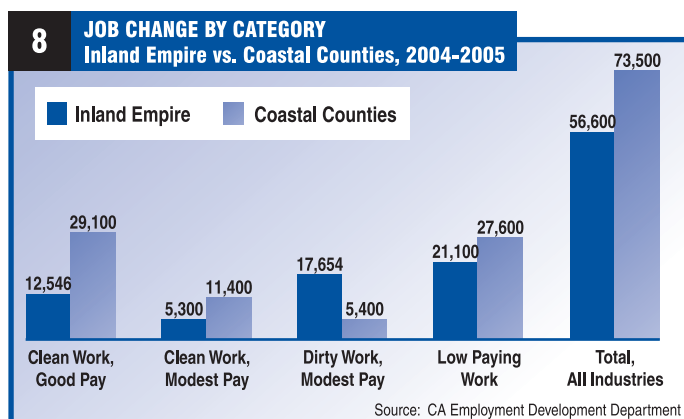
tribution, most manufacturing). In adjacent coastal counties, this group's share was 21.4%. In 2005, these sectors added 17,654 jobs or 31.2% of the inland area's new jobs. Construction (10,400) led the gains. The blue collar group's growth was 5.6% versus 0.4% in the coastal counties.

LOWER PAYING WORK

In 2005, 406,600 or 32.9% of the inland region's jobs were low paying (*temp agency, consumer services, retail, hotel, amusement, agriculture*). The coastal county share was 28.8%. In each case, these groups were the largest in the economy. They added 21,100 of the 56,700 new jobs in Inland Empire or 37.3%. The low paying group's growth of 5.5% was well above the 1.4% in the adjacent coastal counties. The inland region's fastest growth was in retailing (9,100).

SUMMARY

Compared to the adjacent coastal counties, the Inland Empire's 2005 job mix was high in moderate paying blue collar jobs (27.0% vs. 21.4%) and lower paying sectors (32.9% vs. 28.8%). Its share was lower in high paying "clean" jobs (15.5% vs. 23.1%), though that gap is narrowing. In 2005, this high-end group strengthened as the Inland Empire created 28.6% of California's small gain in professional, scientific and technical jobs. ■



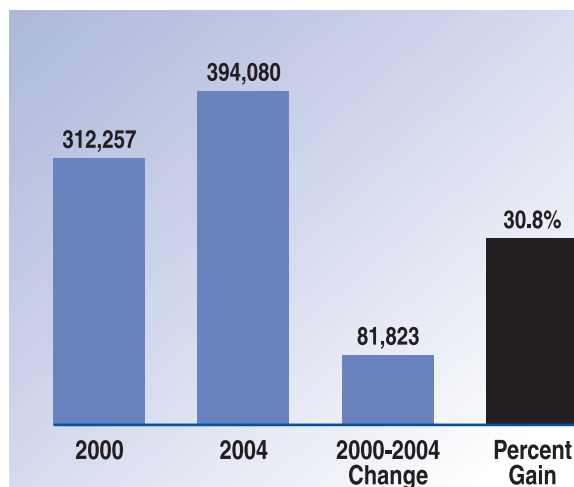
9 OFFICE NET SPACE ABSORPTION Inland Empire, 1991-2005 (moving 4-quarter total)



Source: Grubb & Ellis & Economics & Politics, Inc.

Office Net Absorption. In 2005, the Inland Empire's office market has begun joining other forms of real estate in growing aggressively. Net absorption (*new space taken less space released*) was 1.93 million square feet after being negative as recently as 2002. The vacancy rate fell to 7.0% in fourth quarter 2005, lowest in the suburban U.S. This occurred despite the fact 1.93 million new square feet came on the market. These facts show that a significant white collar job base is now being added to the region's economy.

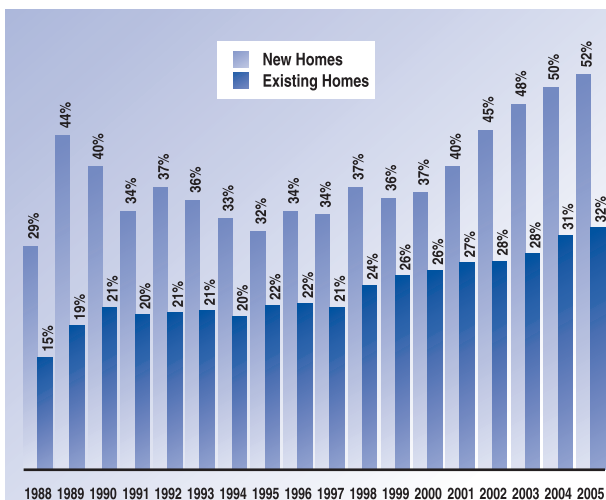
10 BA DEGREE & ABOVE, ADULTS 25 & OVER Inland Empire, 2000-2004



Source: U.S. Census Bureau

Educated Workers. From 2000-2004, the Census Bureau reports that the number of adults 25 and over with bachelor's or higher degrees went from 312,257 to 394,080, up 81,823 or 30.8% in four short years. This rapid shift is occurring because younger well-educated workers can no longer afford the types of homes they desire in Orange, San Diego and Los Angeles counties. They are migrating inland and bringing their skills with them. This is increasing the Inland Empire's competitiveness for high-paying firms.

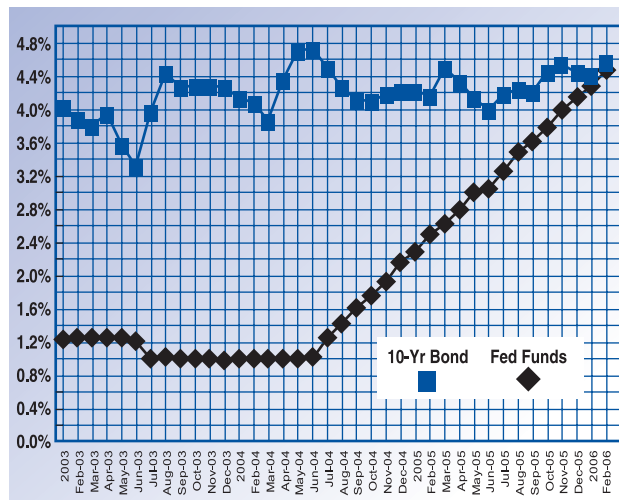
11 SHARE OF SOUTHERN CALIFORNIA HOME SALES Inland Empire, 1988-2005



Source: Dataquick

New Home Sales Domination. From the Mexican border through Ventura County, a record 52% of all detached single family new homes were sold in the Inland Empire in 2005. A record 32% of existing homes were also sold in the area. Lack of space and restrictive zoning are slowly strangling the coastal home markets. They are the reason the Inland Empire's population, housing and job growth are becoming national news.

12 FED FUNDS & 10 YEAR BOND RATES, 2003-2006



Source: Federal Reserve Board

Flat Yield Curve. The Federal Reserve Bank has been raising the overnight or federal funds rate that it controls. The rate has gone from 1.00% in June 2004 to 4.50% in February 2005. In this period, the flow of foreign funds into U.S. markets has kept the 10-year bond, which drives 30-year mortgage rates, relatively flat. It has gone from 4.73% down to 4.57%, though it is up from a low of 4.00% in June 2005. Today, there is little difference between the long and short rates.

13 HOME PRICES 4th Quarter, 2004-2005			
County	4th Qtr-04	4th Qtr-05	% Chg.
NEW HOMES			
Riverside	\$398,000	\$416,500	4.6%
San Bernardino	306,500	390,250	27.3%
Los Angeles	455,000	449,000	-1.3%
Orange	755,000	669,000	-11.4%
San Diego	529,750	518,500	-2.1%
Ventura	644,500	757,500	17.5%
So. California	\$454,000	\$470,600	3.7%
EXISTING HOMES			
Riverside	\$329,000	\$397,000	20.7%
San Bernardino	270,000	345,000	27.8%
Los Angeles	430,000	520,000	20.9%
Orange	569,000	670,000	17.8%
San Diego	520,000	558,000	7.3%
Ventura	540,000	635,000	17.6%
So. California	\$423,800	\$494,300	16.6%

Source: Dataquick

14 HOME DEED RECORDINGS 4th Quarter, 2004-2005							
NEW HOMES				EXISTING HOMES			
Area	4th-04	4th-05	% Chg.	Area	4th-04	3th-05	% Chg.
Redlands, Loma Linda, Yucaipa	201	384	91.0%	Victor Valley	1,571	1,709	8.8%
SB Desert	91	169	85.7%	Fontana, Rialto, Colton, GT	1,690	1,793	6.1%
Fontana, Rialto, Colton, GT	433	647	49.4%	San Bernardino, Highland	1,235	1,290	4.5%
San Bernardino, Highland	164	204	24.4%	Redlands, Loma Linda, Yucaipa	483	486	0.6%
Chino, CHill, Mtcl, Ont, RC, Upl	629	675	7.3%	Chino, CHill, Mtcl, Ont, RC, Upl	1,745	1,721	-1.4%
Victor Valley	1,391	1,099	-21.0%	SB Desert	718	677	-5.7%
SB Mountains	37	22	-40.5%	SB Mountains	1,109	1,007	-9.2%
SAN BDNO COUNTY	2,946	3,200	8.6%	SAN BDNO COUNTY	8,551	8,683	1.5%
Beaumont, Banning, Calimesa	170	540	217.6%	Murrieta, Temecula, L. Elsinore	1,181	1,658	40.4%
Perris, Hemet, S. Jacinto	1,541	2,303	49.4%	Corona, Norco	845	1,117	32.2%
Riverside	299	426	42.5%	Perris, Hemet, S. Jacinto	1,425	1,846	29.5%
Murrieta, Temecula, L. Elsinore	1,650	2,266	37.3%	Beaumont, Banning, Calimesa	278	357	28.4%
Coachella Valley	665	819	23.2%	Riverside Rural	390	496	27.2%
Riverside Rural	549	633	15.3%	Moreno Valley	984	1,127	14.5%
Corona, Norco	1,147	984	-14.2%	Riverside	1,402	1,490	6.3%
Moreno Valley	561	431	-23.2%	Coachella Valley	1,360	1,275	-6.3%
RIVERSIDE COUNTY	6,582	8,402	27.7%	RIVERSIDE COUNTY	7,865	9,366	19.1%
INLAND EMPIRE	9,528	11,602	21.8%	INLAND EMPIRE	16,416	18,049	9.9%

Source: Dataquick

PRICES AND VOLUMES REMAINED STRONG IN 4TH QUARTER 2005

In 2005, the Inland Empire recorded 37,226 new home sales shattering the record of 31,267 in 2004. Growth was 19.1%, after a gain of 9.4% the prior year (*Exhibit 15*). In 2005, existing home sales were a record 70,364 units, down 0.9% from 70,991 in 2004. In the fourth quarter, the Inland Empire's new home sales rose 21.8% from that quarter of 2004 to a record 11,602 units (*Exhibit 14*). Fourth quarter existing home sales were 18,049 units, up 9.9%. The inland area's property values again soared. By 4th quarter 2005, Riverside County's new and existing home prices were up 4.6% and 20.7% from 2004 (*Exhibit 13*). San Bernardino County's were up 27.3% and 27.8%.

SALES. Within the region, 8,402 new home sales were recorded in Riverside County during 4th quarter 2005, up a strong 27.7%. As recordings come at the end of escrow, this activity largely represented sales from the 3rd quarter. The Beaumont, Banning, Calimesa area's sales soared (217.6%) while the volume leader was Perris, Hemet, San Jacinto (2,303, 49.4%). The county had 9,366 existing home sales in 4th quarter 2005, up 19.1%. Murrieta, Temecula, Lake Elsinore sales had the largest gain (40.4%) and Perris, Hemet, San Jacinto was the volume leader (1,846, 29.5%).

San Bernardino County's 4th quarter 2005 new home sales rose 8.6% to 3,200 units. The Redlands, Loma Linda, Yucaipa area was the percent leader (91.0%). Despite slowing, the Victor Valley was the volume leader (1,099; -21.0%). The county's existing home sales rose 1.5% to 8,683 in the 4th quarter. The Victor Valley was the percent leader (8.8%) while the Fontana, Rialto, Colton, Grand Terrace area had the highest volume (1,793, 6.1%).

PRICES. Riverside County's 4th quarter 2005 median new home price was a record \$416,500, up 4.6% from 2004 and above 3rd quarter's \$412,000. Its median existing home price was a record at \$397,000, up 20.7% from 2004 and above last quarter's \$370,000. San

Bernardino County's 2005 median new home price was a record \$390,250, up 27.3% from 2004 but down from last quarter's \$405,500. Existing home prices averaged a record \$345,000, up 27.8% from 2004 and above 3rd quarter's \$310,000. Southern California's median new home price was up 3.7% to \$470,600 despite declines in Los Angeles, Orange and San Diego counties. Existing home prices rose throughout Southern California with the overall median up 16.6% to \$494,300.

SUMMARY. In the 4th quarter, the housing market entered a difficult period. Price declines appeared in coastal new home markets while Riverside County was up just 4.6%. Existing home prices continued rising at double digits except in San Diego County. In volume, the Inland Empire saw strong double digit increases in Riverside County, but San Bernardino County's new homes were up just 8.6%; existing homes rose only 1.5%. In 2006, prices and volumes will likely flatten in the inland area. It should out-perform Southern California as its homes remain low by California standards. ■

15 HOME DEED RECORDINGS, ANNUAL 2004-2005							
NEW HOMES				EXISTING HOMES			
Area	2004	2005	% Chg.	Area	2004	2005	% Chg.
SB Desert	308	542	75.7%	Fontana, Rialto, Colton, GT	6,685	7,377	10.4%
Fontana, Rialto, Colton, GT	1,092	1,854	69.8%	Chino, CHill, Mtcl, Ont, RC, Upl	6,923	7,095	2.5%
Victor Valley	3,641	4,352	19.5%	Victor Valley	6,670	6,284	-5.8%
Redlands, Loma Linda, Yucaipa	907	919	1.3%	San Bernardino, Highland	5,104	4,994	-2.2%
Chino, CHill, Mtcl, Ont, RC, Upl	2,124	2,122	-0.1%	SB Mountains	4,484	2,982	-33.5%
San Bernardino, Highland	691	638	-7.7%	SB Desert	2,899	2,924	0.9%
SB Mountains	150	70	-53.7%	Redlands, Loma Linda, Yucaipa	2,203	2,107	-4.4%
SAN BERNARDINO CO.	8,913	10,495	17.7%	SAN BERNARDINO CO.	34,968	33,763	-3.4%
Riverside	822	1,236	50.4%	Corona, Norco	3,855	4,263	10.6%
Corona, Norco	2,547	3,738	46.8%	Murrieta, Temecula, L. Elsinore	5,854	6,392	9.2%
Perris, Hemet, S. Jacinto	4,631	6,581	42.1%	Beaumont, Banning, Calimesa	1,264	1,351	6.9%
Murrieta, Temecula, L. Elsinore	5,607	6,820	21.6%	Perris, Hemet, S. Jacinto	6,638	7,018	5.7%
Riverside Rural	2,405	2,545	5.8%	Riverside	5,931	6,055	2.1%
Moreno Valley	1,612	1,579	-2.0%	Moreno Valley	4,108	4,148	1.0%
Coachella Valley	3,508	3,207	-8.6%	Riverside Rural	1,725	1,706	-1.1%
Beaumont, Banning, Calimesa	1,222	1,025	-16.1%	Coachella Valley	6,648	5,668	-14.7%
RIVERSIDE COUNTY	22,354	26,731	19.6%	RIVERSIDE COUNTY	36,023	36,601	1.6%
INLAND EMPIRE	31,267	37,226	19.1%	INLAND EMPIRE	70,991	70,364	-0.9%

Source: Dataquick

SAN BERNARDINO ASSOCIATED GOVERNMENTS

ECONOMIC ACTIVITIES

Continued from front cover

Of course, it's not all about flat tires. The FSP also aided with 591 mechanical breakdowns, 264 empty gas tanks, 224 accidents, 186 electrical problems, 185 overheated engines and more during these first two months. A total of 486 vehicles were towed from the freeway for more heavy-duty repairs.

After fighting for years to get an FSP program in place in San Bernardino County, it's exciting and gratifying to note how many people are actually benefiting from these roving tow trucks. Securing funding for the program was an uphill battle. Because of rules that restricted participants, SANBAG enlisted the help of then-Assemblyman John Longville to author legislation to allow other eligible transportation agencies to begin FSPs. The bill became law in September 2004. Since then, San Bernardino, Placer and Santa Barbara counties have joined 19 other counties with FSP program in California.

FSP programs are more than a convenience to motorists with broken-down vehicles. They help ensure the safety of stranded

drivers by getting them on their way quickly. The FSP also relieves traffic congestion from blocked lanes and from "lookie-loo" drivers who slow down to watch. In addition, the service improves air quality by reducing stop-and-go traffic that results from vehicle breakdowns.

The program is being funded by state funds and by funds from Measure I, the half-cent sales tax for transportation improvements in San Bernardino County. Future funding is secured by state statute and will continue to be matched by Measure I dollars.

And speaking of the future, the FSP in the San Bernardino Valley is set to expand later this spring or early this summer to Route 60 and to Interstate 215. Service will be added to 10 miles of Route 60 from Chino to Ontario and to seven miles of Interstate 215 from Grand Terrace to San

Bernardino. If additional funding becomes available in the future, service could expand further north on I-15 and I-215, further east on I-10 and to Route 210 in Upland and Rancho Cucamonga.

